**Management Report: The Financial Health Of Amazon Inc For 2022 And 2021 Financial Years**

**Executive Summary:**

This management report provides a comprehensive analysis of the financial health of Amazon Inc. based on its recent two annual reports for the fiscal years 2022 and 2021. The analysis focuses on key financial ratios and performance indicators to evaluate the company's liquidity, profitability, solvency/ debt management, asset utilization and investor/market ratios. The findings of this report aim to assist stakeholders, including executives, investors, and shareholders, in understanding Amazon's financial position and performance over the past two years.

**Introduction:**

Amazon Inc. is a multinational technology company, which engages in providing online retail shopping services. It operates through the following segments: North America, International, and Amazon Web Services (AWS). The company was founded by Jeffrey P. Bezos in July 1994 and is headquartered in Seattle, WA., United States of America.

**Financial Health Analysis and Interpretation:**

**Liquidity Analysis:**

The current ratio and quick ratio decline in 2022, indicates a decrease in the company's ability to meet short-term obligations with current or liquid assets. The result reflects a reduction in immediate liquidity thereby posing a potential challenge in meeting due financial obligations. This implies Amazon’s inability to adequately cover for every $1 of incurred current liabilities. Although, the cash ratio improved from 0.25 in 2021 to 0.35 in 2022, indicating a healthier cash position, the overall liquidity position remains under pressure. This decline raises concerns about liquidity management.

A decline in defensive interval days in 2022 suggests that the company may have fewer days to cover its operating expenses in the absence of additional revenue indicating increased financial risk. A negative net trading cycle is generally positive as it indicates efficiency in working capital management and indicates that the company can convert its inventory into cash before it has to pay its suppliers. It should however be noted that 2022 resulted in a decrease in accounts payable days and an increase in receivable days which should be frowned at in subsequent financial years.

A negative working capital in 2022 sums up the liquidity position of Amazon Inc and indicates that the company's short-term liabilities exceed its short-term assets, which can be a concerning sign on Amazon’s ability to cover its short-term obligations.

**Profitability Analysis:**

**The gross margin represents the percentage of revenue that exceeds the cost of goods sold. Amazon Inc recorded a** marginal rise in 2022 comparatively to 2021 thus indicating improved profitability resulting from superior revenue generation through sales. This increase was eroded as further results showed a decline in EBIT and EBITDA margin in 2022 which emanated from a significant 11.32% increase in operational costs reflecting challenges in operational efficiency and cost control. Consequently, a negative net margin of -0.53% in 2022 was the overall profitability outcome after accounting for all expenses, reflecting deteriorating profitability which have adversely affected the company's bottom line.

**Solvency/Debt Management Analysis:**

**The results from Amazon Inc comparative solvency/ debt management analysis shows an** increase in the Debt-to-Equity ratio, debt to total assets ratio, long-term debt to capital ratio in 2022. The increment in these key performance indicators has exposed Amazon’s high appetite and reliance on debt financing in its capital structure. This has directly impacted on the interest expense recorded in the year 2022 leading to a sharp growth of interest expense by 23.57%. Consequently, a decline in times interest earned from 13.75 in 2021 to 5.17 in 2022 suggests a reduction in the company's ability to cover interest expenses with operating income. Furthermore, a decrease in the debt coverage ratio from 0.21 in 2021 to 0.17 in 2022 indicates weaker ability to service debt obligations from operating cash flows thereby raising concerns about financial leverage and risk exposure.

It is important to point out the positive free cash flow generated in 2022 after accounting for capital expenditures and servicing of debts suggests that the company generated more cash than it used for operating and financing activities, which could improve its ability to invest in growth opportunities.

**Asset Utilization Analysis:**

**The outcome of this analysis shows Amazon Inc is efficient in utilizing** total and fixed **assets to generate revenue in excess of each $1 invested with a r**elatively stable asset turnover. However, the decline in fixed asset turnover in 2022 may have resulted from the 17.86% increase in depreciation charges or sheer underutilization of fixed assets in generating revenue. Also, a slight increase in inventory turnover from 8.34 in 2021 to 8.40 in 2022 indicates improved efficiency in inventory management.

The negative **Return on Assets** of -0.59% in 2022 shows that the company operated at a loss relative to its asset base and indicates that the company's operations were not profitable enough to cover the costs associated with its assets.

**Investor/Market Ratios Analysis:**

**The investor/market analysis of Amazon Inc** in 2022 shows a negative Earning per share, P/E ratio, **return on equity** as well as a decline in return on capital employed. This negative outcome indicates declining shareholder value that stems from t**he net loss recorded by Amazon Inc thus, the potential to damage investor’s confidence which in turn leads to concerns of overvaluation of the market price of stocks exists.**

Amazon Inc focuses on growth and expansion by reinvesting its earnings into new opportunities that are more profitable and as such does not pay dividends to its shareholders. T**he valuation of Amazon Inc improved as the analysis shows an increase in the enterprise value foretelling higher investor’s expectations of Amazon Inc in 2022.**

**Recommendation:**

The following actions are recommended to enhance Amazon Inc.'s financial performance:

* Put more emphasis on enhancing liquidity through better working capital management and raising cash reserves to guarantee sufficient payment of short-term obligations.
* Resolve cost challenges to maintain long-term growth and profitability.
* Prioritize debt management and explore actionable strategies to lower leverage and improve debt servicing capacity.
* Increasing operational effectiveness and optimizing asset use to boost total profitability and return on assets.
* Focus attention on restoring investor trust via open dialogue, calculated risks, and enhanced financial results.

**Conclusion:**

The financial analysis highlights the financial health of Amazon Inc. in terms of liquidity, profitability, solvency, asset utilization, and investor confidence. The company should prioritize strategic initiatives aimed at improving operational efficiency, managing debt levels, enhancing liquidity, and restoring investor trust. Continuous monitoring and proactive measures are essential to navigate the evolving business landscape and sustain long-term growth and profitability.

**Sources:**

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